

City of Midland, Michigan

Required Supplemental Information Note to Required Supplemental Information Year Ended June 30, 2005

Note - Stewardship, Compliance, and Accountability

Budgetary Information - Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund, Special Revenue Funds, and Debt Service Funds. All annual appropriations lapse at the end of the fiscal year.

On or before the second Monday in April, the City Manager presents the proposed budget to the City Council for review. The City holds public hearings and a final budget must be prepared and adopted no later than the fourth Monday in May. During the current year, the budget was amended in a legally permissible manner.

The City Council approves the annual budget, which is prepared at the functional level.

Encumbrance accounting is employed in governmental funds. Encumbrances (purchase orders, contracts, and other commitments for the expenditure of monies) outstanding at year end are reported as reservations of fund balances since they do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

The City did not approve budgets for the General Construction Fund and the Cemetery Fund. Accordingly, no budget comparison schedules are provided for.

The City did not approve budgets for the Major Street Construction Fund and the Local Street Construction Fund. For the government-wide and fund financial statements, these two funds have been combined with the Major Street Fund and Local Street Fund, respectively. For the budgetary comparison schedules, the activity relating to these construction funds is shown in the reconciliation at the bottom of the budgetary comparison schedule for the Major Street Fund and Local Street Fund.

Excess of Expenditures Over Appropriations in Budgeted Funds - The City of Midland incurred expenditures that were in excess of amounts budgeted. These unfavorable variances were caused by unanticipated expenditures that became necessary during the year. The significant budget overruns follow:

- General Fund - Public safety budget overrun of \$73,011 due to greater than anticipated personnel costs associated with the firefighters' contract settlement
- Transportation Fund - Operations budget overrun of \$40,664 due to greater than anticipated vehicle maintenance costs
- Special Activities Fund - The budget for the Special Activities Fund included the accumulation of contributions for the construction of a new airport terminal building, as well as the capital expense of those contributions for the building construction. Ultimately, the construction costs occurred in the General Construction Fund, and those funds accumulated in the Special Activities Fund were transferred to the General Construction Fund. This resulted in a favorable variance for capital outlay of over \$400,000 and a similar unfavorable variance to operating transfers out.